AUSTRALIA & NEW ZEALAND WEEKLY.

Week beginning 12 December 2022

Editorial: Australian economy likely to stall in the second half of 2023.

RBA: Governor speaking (at AusPayNet annual summit).

Aus: Westpac-MI Consumer Sentiment, business survey, labour force survey,

NZ: Q3 GDP, current account balance, HYEFO 2022, house prices and sales, manufacturing PMI.

China: retail sales, fixed asset investment, industrial production.

Europe: ECB policy decision, trade balance, industrial production.

UK: BoE policy decision, CPI, unemployment rate, retail sales,

US: FOMC policy decision, CPI, retail sales, industrial production, regional surveys.

Global: S&P Global PMIs.

Key economic & financial forecasts.

INFORMATION CONTAINED IN THIS REPORT
CURRENT AS AT 9 DECEMBER 2022.

WESTPAC INSTITUTIONAL BANK

Australian economy likely to stall in the second half of 2023

The recent national accounts for the September quarter were largely in line with our expectations and they further emphasised some of the key developments we see in the Australian economy that will lay the foundations for a modest growth outlook in 2023 and 2024.

We continue to forecast a slowdown in the growth profile for the Australian economy from 2.6% in 2022 to 1.0% in 2023 and 2.0% in 2024.

The key to this profile is the consumer.

Household consumption is forecast to slow from around 2% (6 month annualised) in the first half of 2023 to near zero in the second half. That would see growth through the year of 1.0%.

The first half will benefit from the spill over of the momentum in the second half of 2022, which is expected at around a 4% pace (six month annualised) while the building negative forces of a rising interest rate burden; the fading reopening of the economy; a much more modest fall in the savings rate than we saw in 2021 and 2022; a damaging negative wealth effect from falling house prices and negative real wages growth will weigh heavily on the household sector.

Consistent with a depressing outlook for domestic sales and the expiry of the tax allowances in June, business equipment investment is forecast to contract by around 7% in the second half of 2023. This hit to activity will be compounded by a contraction in new residential investment and in home renovation activity.

A six month period of a stagnant economy and no growth in household spending will alert the RBA to the need to ease policy settings in 2024. Overall output growth in 2024 is forecast to improve to 2%, with the bulk of that expansion (1.5%) coming in the second half of the year.

Inflation will be lower in 2024 (at 3%) than the RBA's current forecast of 3.25%, allowing the RBA to cut rates by around 100 basis points through that year.

The sharp economic slowdown in 2023 will be partly engineered by the need for the RBA to continue lifting the cash rate in the first half of 2023 as wages growth and inflation remain uncomfortably high and growth holds at a "respectable pace" – particularly in the opening quarter.

The themes which are discussed below from the September quarter national accounts are expected to extend through 2023.

Risks to the profile are evenly balanced.

Inflation and wages may fall much more quickly than we envisage allowing the RBA to bring forward the rate cuts and avoid the last hike (to 3.85%) we are anticipating for May.

On the other hand, inflation throughout 2023 may be stickier than we expect. The RBA would be unable to cut rates in 2024, as anticipated, condemning the Australian economy to another very difficult year with weak growth and no prospect of any interest rate relief.

While there is mounting evidence that relief from supply side inflation is in prospect, demand factors remain uncertain.

Through 2023 businesses need to embrace that difficult growth outlook and desist from excessive price increases or out bidding competitors for scarce labour. In general, the prospect of flat growth should convince businesses that large wage increases and rising prices will be unsustainable by the second half of 2023.

The observations below on the recent evidence on the evolution of the economy are supportive of our assessment.

The Australian economy expanded by 0.6% in the September quarter for annual growth of 5.9%

Household spending growth slowed in the quarter from 2.1% in the June quarter, to 1.1%, although it did contribute all the 0.6ppts of overall growth. Motor vehicles sales and operations (0.4ppts); hotels, cafés and restaurants (0.4ppts); and transport services (0.3ppts) contributed most of the 1.1ppt growth in household consumption. While not as strong as in the June quarter, the opening up effect was once again apparent as a key driver of consumer spending, although there were some examples (recreation and leisure) where the opening up effect has already faded (the ABS advise that this surprise slowing in recreation was more apparent in the goods component than services, as well as gambling).

Part of this lift in spending was funded by a further fall in the household savings rate from 8.3%, in June, to 6.9%, although the major fall from a peak of 19.4% in September 2021 (associated with the delta lockdowns) has largely worked its way through.

In reviewing the household cash flow for the September quarter, we estimate that household incomes lifted by $8.2bn; were boosted by interest and dividend payments of $4.5bn but were reduced by a substantial leakage of $5.1bn in higher interest payments as rising interest rates bite. That fall in the savings rate released $4.2bn in free funds supporting a nominal increase in spending of around $10bn.

As a point of comparison with the June quarter we note that interest payments only increased by $1.4bn while the boost from the fall in the savings rate was $9.5bn for an overall boost in nominal spending of $11.4bn.

That comparison with the June and September quarters highlights the rebalancing of the falling savings rate and rising interest costs that will weigh even more heavily on spending as we go forward.

Prospects for growth in consumer spending are easing as the reopening effect fades and the savings rate settles back at a more normal level. However, given the accumulated $260bn in excess household savings, it is likely that the savings rate will fall below equilibrium (judged to around 6%) as households draw on these excess balances. We expect that through 2023 that savings rate can drift down to around 3% but our forecasts anticipate that the boost to available spending power will be more than offset by the rising interest cost.

Consumer spending was also boosted by household incomes in the September quarter.

Compensation of employees rose 3.2% (including 2.7% in wages and salaries) in the quarter up from growth in the June quarter of 2.5% (2.2% in wages and salaries).

However, households were challenged by a sharp increase (2.0%) in the household consumption deflator up from 1.5% in the June quarter and the fastest quarterly gain since March 1988.

The weakness in housing activity was not only apparent in property turnover (subtracted 0.2ppts from growth) but a 2.2% decline in renovation work.

Business investment was generally lack lustre (up 0.7%) with a 3.0% fall in machinery and equipment being offset by a 4.3% increase in non-residential construction.

There are some clear themes in the latest set of national accounts.

Household spending, boosted by a falling savings rate, continues to be the driver of growth largely through the reopening lift from travel; accommodation and hospitality; and motor vehicle purchases.

Some specific drag is apparent in the weak real estate market.

As we move forward, the reopening effect will fade; property weakness will linger; the savings rate will find a floor; and consumer spending growth will continue to slow.

In addition, the drag on incomes from rising interest rates will intensify through 2023 just as we saw the drag lift from $1.4bn in the June quarter to $4.5bn in the September quarter.

But price and wage pressures are building, and it is these contrasting forces that will challenge policy. Our forecasts continue to embed a lift to a peak of 3.85% in the RBA cash rate by May next year.

Bill Evans, Chief Economist

THE WEEK THAT WAS

This week, Australia's Q3 GDP report and the outcome of the December RBA Board meeting provided a broad update on the health of Australia's economy and its outlook. Offshore, the growing divergence between developed and developing markets' growth prospects remained in focus.

Q3 GDP for Australia came in slightly under the market's expectation at 0.6%, 6.9%yr. Household spending was the key support in the three months to September, with a further reduction in the savings rate and robust nominal income gains facilitating a 1.1% lift in consumption. This does however represent a clear slowdown in the pace of consumption growth from the first half of the year, indicating that the reopening effect is fading.

As spending patterns continue to normalise and the full effect of rapidly rising interest rates and inflation's hit to real incomes is felt, consumption growth will slow further. Some components of household spending are already beginning to wilt under these headwinds, as evinced by the 11.2% decline in real estate turnover which subtracted 0.2ppts from GDP growth in Q3. Conditions for business investment meanwhile remain mixed. In short, supply issues, and on occasion the weather, are limiting the pace at which the sector's pipeline of work can progress. Though, with capacity tight and tax incentives continuing to support, business remains constructive on the outlook for investment over the coming year.

After 13 consecutive quarters of surplus, Australia's current account meanwhile slipped into deficit in Q3, ending the longest run of surpluses in the history of the series which dates back to 1959. This was predominately driven by the trade surplus narrowing from $42bn at June to $31bn in September – still an elevated level versus history. As was subsequently highlighted by the October trade balance, in part due to global conflict and uncertainty, fuel and food exports are at record highs and are likely to show continued strength. Note though, the flip-side of record resource sector profitability is an outsized flow of dividends to foreign shareholders. In Q3, Australia's net income deficit rose to 4.4% of GDP, roughly in line with the peak during the 2007 commodity price boom.

Commodity markets were a broader point of discussion for the Westpac Economics team this week, both with respect to the diverging growth prospects of developed and developing nations heading into 2023 and amid the global green transition. Our newest video series 'Commodities in Transition' seeks to delve deeply into both with a view to assessing the implications for Australia's exports and national income.

On Australia's outlook, the December RBA Board meeting was also informative. As discussed by Chief Economist Bill Evans, having delivered another 25bp hike, the RBA retained its tightening bias heading into the new year, noting the "Board expects to increase interest rates further over the period ahead, but it is not on a pre-set course". Further, concern continued to be shown over the potential threat to the economy of high inflation becoming entrenched. Westpac continues to expect additional 25bp increases at the February, March and May meetings, taking the cash rate to a peak of 3.85% which is then expected to be retained until 2024, when we see a series of interest rate cuts beginning.

Moving offshore, the market this week showed increasing confidence in China's outlook and, by association, that of developing Asia. The two have a strong connection, with China receiving a large and growing dividend from Asia's economic development and, ahead, their shift to renewable power generation and society's electrification – structural changes which China has a leading role in globally.

However, the focus of most market participants currently is China's path out of COVID-zero. On this front, news remains positive, with a further easing of testing and isolation rules seen over the week as well as the relaxation of the requirement to show a negative test to enter public transport, retail and offices in major tier 1 cities. Authorities are also working hard to improve confidence amongst consumers, the intent being to increase households willingness to spend in line with their capacity. A progressive end to COVID-zero restrictions at the same time as residential construction begins to rebound and investment in heavy and technological infrastructure continues to show strength is a heady mix for China GDP growth, which we see rebounding from 3.5% in 2022 to 6.0% in 2023.

Finally to the US and Europe. Ahead of their final central bank meetings for 2022 next week, comments by policy makers and the data flow was very light. For the US, a strong nonfarm payrolls print last Friday and ISM services report this week has done little to assuage the market of growing fears of recession in 2023, with the S&P Global services PMI in contrast signalling a weak state of affairs for small and medium-sized firms in the sector.

As we have long argued, albeit for different reasons, the risks of recession in the US are similar to those for Europe heading into the new year. It is therefore unsurprising that both the US dollar and US term interest rates are near their recent lows as we go to print. In our view, this is unlikely to change materially between now and when **the peak fed funds rate is seen for this cycle, which we now expect to be in March 2023 at 4.875%** (previously February at 4.625%).

Over that period and in the lead up to the aggressive rate cuts we expect to prove necessary through 2024 and H1 2025, market participants are likely to focus on quantifying the risks to US economic activity instead of any lingering concerns around inflation. With European risks to crystalise earlier in 2023 than the US, we forecast a trend decline in the US dollar over the coming year, continuing into 2024 as rate cuts commence in both jurisdictions.

Week ahead & data wrap

From 'squeeze' to 'crush' – New Zealand forecast update

We have revised down our forecasts for economic activity in response to the continued tightening in financial conditions. We expect that economic growth will drop to stall speed over the coming year, with the economy briefly slipping into a recession in late 2023 / early 2024 as the full brunt of interest rate hikes ripple through the economy. The projected recession is not expected to be deep - we're 'only' forecasting a decline of 0.3%. More importantly, however, we expect a protracted period of weak demand through mid-2023 to mid-2024, with economic growth falling well below trend. That weakness in economic conditions will result in unemployment rising from 3.3% currently to around 4.8% over the coming years.

The reason for the projected slowdown in economic growth has been the continued rise in borrowing costs. With inflation running red hot, the Reserve Bank has been hiking the Official Cash Rate (OCR) at a rapid pace. The cash rate has already risen by 400 basis points since October of last year.

Those large increases in the OCR have seen a marked downturn in the housing market. Nationwide house prices have now fallen by an average of 12% from their peak in 2021, and house sales are at their lowest levels since 2010 (barring the lockdown period in 2020). New Zealanders hold a large amount of their wealth in owner occupied or investor housing, and the fall in prices now in train has taken a sizeable bite out of many households' net worth.

But despite that, overall household spending has continued to trend higher a year after the interest rate tightening cycle began. Crucially, we have not seen any signs that domestic inflation pressures are cooling. In fact, measures of core inflation have continued to push higher.

A key reason for that resilience in demand is that around 90% of New Zealand mortgages are actually on fixed rates. Many borrowers locked in very low interest rates in the early stages of the pandemic. That has shielded them – and their spending power – from interest rate increases to date.

However, as we've been at pains to highlight, the situation for many New Zealand borrowers is going to become much tougher. Around half of all mortgages will come up for repricing over the coming year, and borrowers will face refixing at rates that are significantly higher than those they are currently on.

Notably, since the RBNZ's last policy meeting in November – when they delivered a jumbo sized 75bp hike and signalled that further large interest rate hikes are on the cards – mortgage rates have taken another step higher. As a result, borrowers who go to refix their mortgage now could see the interest rate on their loan rising by upwards of 3.5%. That signals an even larger drag on demand than we had previously anticipated. We're now forecasting outright falls in per-capita spending over 2023.

Household spending accounts for around 60% of total economic activity, and the expected fall in demand will drive a broader downturn in economic activity, including capital spending by businesses. As activity weakens, we're likely to see unemployment trending higher, which will further compound the pressure on some households' finances.

That slowdown in domestic demand and the labour market is actually what is needed – and what the RBNZ has been trying to engineer – to dampen the inflation pressures that have been boiling over in every corner of the economy. Even so, we don't expect inflation will be back inside the RBNZ's target band until mid-2024.

Half-Year Update 2022 Preview: A rock and a hard place

With a weaker growth outlook and surging wage inflation, the Government is facing a tricky balance maintaining the level of public services while not exacerbating wage and inflation pressures. On balance, we expect the Government to prioritise maintaining services over the risks that increased spending will exacerbate inflation.

That means we expect an increase in the spending allowances for coming Budgets. Notably for Budget 2023 we expect a circa $1.5bn to be added to the operating allowance versus what was already allocated at Budget 2022. We also expect smaller additions of circa $1bn for Budgets 2024, 2025 and 2026.

Alongside the additional spending, we expect an aggressive programme of spending re-prioritisation to free up spending to maintain key public services like health. An additional reason for this delicate balancing is that the Government will want to stay as close as possible to its previously stated operating balance target. Accordingly, we expect the books to show a surplus in the later years, but for it to be small and within the magnitude of error, and the Government could potentially push out the year that it returns to surplus by a year. In contrast and given the strong starting point, we expect the Government's debt track to remain within its stated targets i.e. comfortably below the 30% net debt ceiling.

Market interest will be on the size of the bond programme. Overall, we expect an increase of $20bn over the four-year forecast period relative to Budget 2022. This increase in part reflects the increase in spending allowances. It also includes an allowance for the funding of Kāinga Ora's activities (in November the Government announced that Kāinga Ora will now borrow from the Crown's New Zealand Debt Management office, rather than private sources).

Bond Programme, $bn (June year)

	2023	2024	2025	2026	2027	4-year Total to 2026
Half-Year Update	**25**	**30**	**30**	**25**	**20**	**110**
Budget 2022	25	25	25	15	-	90
Change	0	+5	+5	+10	-	+20

Satish Ranchhod, Senior Economist
Nathan Penny, Senior Agri Economist

Round-up of local data released over the last week

Date	Release	Previous	Actual	Westpac f/c
Mon 5	Nov ANZ commodity prices	–3.4%	–3.9%	–5.0%
Tue 6	Q3 building work put in place	4.6%	3.8%	1.1%
Wed 7	GlobalDairyTrade auction (WMP)	2.4%	0.1%	0.0%
Fri 9	Nov card spending	1.0%	0.3%	0.6%

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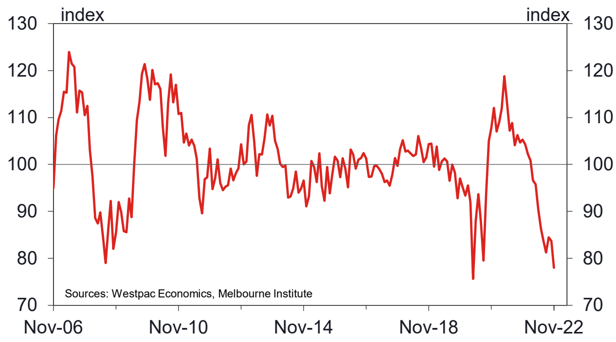
Aus Dec Westpac-MI Consumer Sentiment

Dec 13, Last: 78

Consumer Sentiment fell to fresh cycle lows in Nov, dropping a further 6.9% to just 78. A continued surge in inflation; a relatively poorly received Federal Budget; and a further 25bp rate rise from the RBA with a clear signal of more to come all weighed heavily on consumer confidence in the month. There was also a notable deterioration in expectations for unemployment, which had held at relatively upbeat levels through the year to date.

Dec may see the gloom lift slightly, a milder than expected Oct CPI inflation indicator possibly easing some inflation fears. However, the pressure from rate rises will clearly continue, the RBA delivering another 25bp hike at its Dec meeting and warning that it expects to increase rates further over the period ahead.

Consumer Sentiment Index



Aus Nov Labour Force - employment '000

Dec 15, Last: 32.2k, WBC f/c: 27k
Mkt f/c: 17k, Range: 0k to 45k

Total employment lifted 32.2k in October following a 3.8k contraction in September (revised from +0.9k). It was a strong update even though holidays, sickness and floods continue to hold back the recovery in employment.

Further highlighting the strength of the September update, seasonally adjusted hours worked increased by 2.3%, stronger than the growth in employment (0.2%). This stronger growth in hours partly reflected fewer people than usual taking leave during October.

While labour market indicators from both business and household surveys, along with job ads, have eased a bit over the past few months they remain at very robust levels consistent with at least sound employment growth. And the November update from Weekly Payrolls suggests jobs growth bounce back in the month. Our forecast 27k rise in employment should hold the three month average increase around 20k.

Westpac employment indicators

Aus Nov Labour Force - unemployment rate %

Dec 15, Last: 3.4%, WBC f/c: 3.3%
Mkt f/c: 3.4%, Range: 3.3% to 3.5%

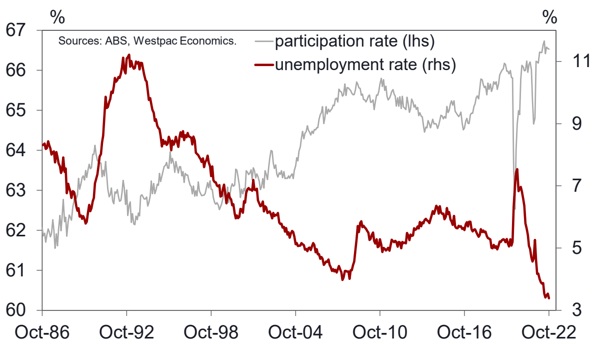
Participation was flat at 65.5% (at two decimal places it fell from 65.55% to 65.53) which nevertheless is still only just under the historical high of 66.7%. Due to the moderation in participation there was a smaller 11.7k gain in the labour force resulting in a 20.6k drop in those unemployed with the unemployment rate falling 0.1ppt to 3.4%.

At 3.4% the unemployment rate is the lowest since November 1974.

There continues to be a pickup in the growth of the working age population which lifted from 0.6%yr last December to 1.2%yr in October. Prior to Covid annual growth in the working age population peaked at 1.7%yr in 2018/2019 due to robust immigration.

Holding participation at 66.5% and the rate of growth in the working age population steady this should see a 17k increase in the labour force in October. As such, our 27k forecast increase in employment will be enough to take the unemployment rate down to 3.3%.

Unemployment lowest since 1974



NZ Nov REINZ house sales and prices

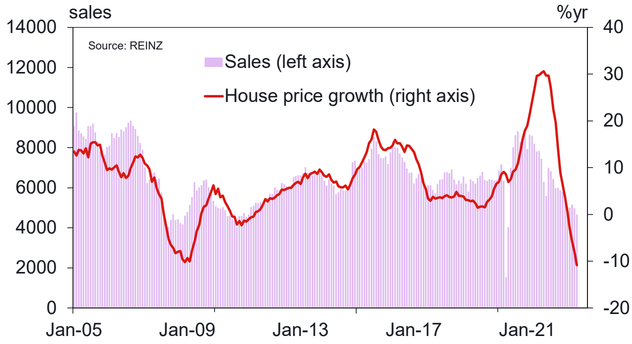
Dec 12 (TBC), Sales last: –6.4% m/m, –34.7% y/y
Prices last: –1.1% m/m, –10.9% y/y

The downturn in the New Zealand housing market continued in October. Sales dropped to an eleven-year low and we continued to see widespread price declines.

We expect the November sales report will show that the downturn has continued to deepen. Mortgage rates have taken another step higher, and that will further dampen sales and prices.

At the same time, the stock of unsold homes is dropping back. Vendors are increasingly accepting that they won't get the prices they would like and are instead stepping back from the market. However, we don't think that will do much to stem the fall in prices in the near term as the RBNZ is expected to continue hiking the cash rate at a rapid pace.

REINZ house prices and sales



NZ Q3 Current Account Balance, % of GDP

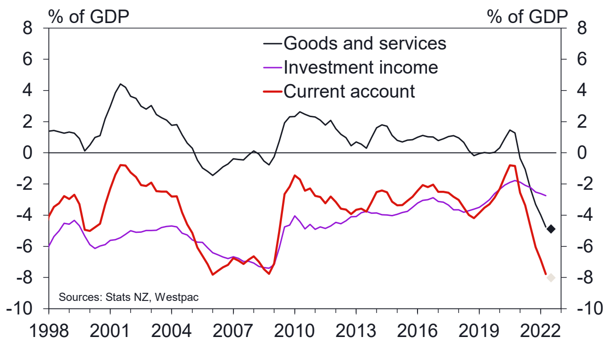
Dec 14, Last: –7.8%, Westpac: –8.0%

We expect the annual current account deficit to widen to 8.0% of GDP in the September quarter, from 7.8% in the June quarter.

The widening of the deficit beyond the average level of recent years essentially reflects the hot New Zealand economy since late 2020 – we have been, at least temporarily, living beyond our means.

However, we expect that 8.0% will represent the widest point for the current account deficit in this cycle. From here and as the economy slows, we expect the current account to narrow to 7.3% by year end and to around 4.3% by December 2023.

NZ annual current account balance



NZ Half Year Economic and Fiscal Update

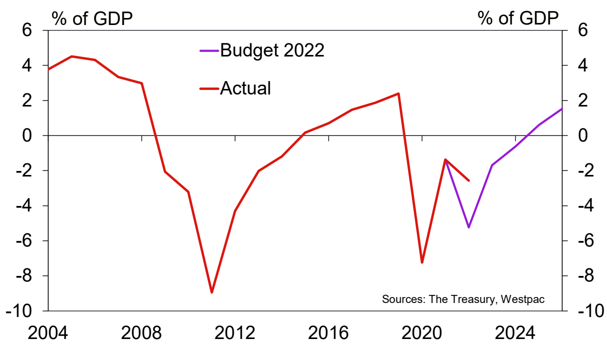
Dec 14

With a weaker growth outlook and surging wage inflation, the Government is facing a tricky balance maintaining the level of public services while not exacerbating wage and inflation pressures.

As a result, we expect some increase in spending allowances for upcoming Budgets, alongside an aggressive programme of spending re-prioritisation to free up spending to maintain key public services like health. We also expect the books to show a surplus in the later years, but for it to be small and/or the Government could potentially push out the year that it returns to surplus by a year. In contrast, we expect the Government's debt track to remain within its stated targets.

Market interest will be on the size of the bond programme. Overall, we expect an increase of $20bn over the four-year forecast period relative to Budget 2022.

Operating balance (OBEGAL) as a % of GDP



DATA PREVIEWS

NZ Q3 GDP

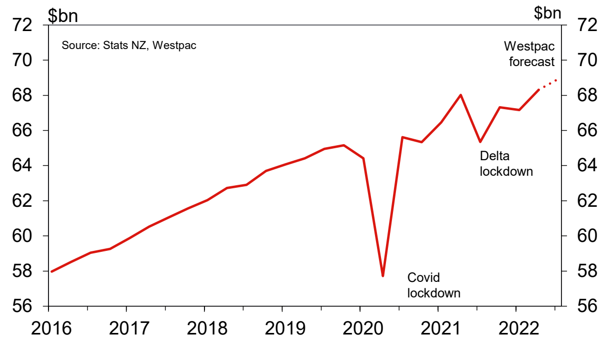
Dec 15, Last: 1.7%, WBC f/c: 0.9%, Mkt f/c: 0.7%

We expect a 0.9% rise in GDP for the September quarter. That follows a 1.7% surge in the June quarter, as the reopening of the border to international tourists gave a boost to areas such as transport, accommodation and recreational activities.

The September quarter is likely to see a similar lift in these areas, though not at the same rate of increase given the higher starting point this time. We also expect to see strong gains in construction and food manufacturing.

Our pick is similar to the Reserve Bank's forecast of a 0.8% rise. While the RBNZ's statements about engineering a recession have caught many people's attention, that's more of a story for mid-2023 onward – they still expect the economy to retain its momentum in the near term as the travel recovery continues.

NZ production-based GDP



US Dec FOMC meeting

Dec 14-15, Last: 3.875%, Mkt f/c: 4.375%, WBC 4.375%

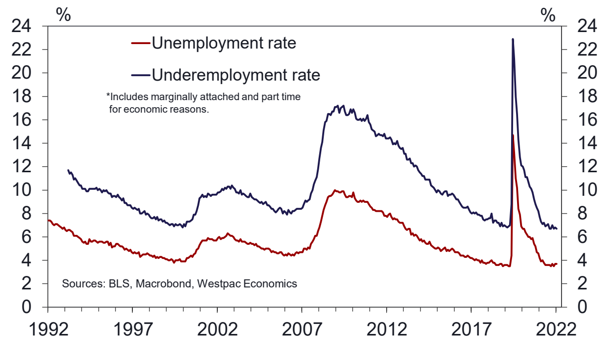
Recent data have given the FOMC enough confidence in their tightening to date and the risks related to inflation to slow the pace of rate hikes from 75bps to 50bps at the December meeting. A further moderation is likely to come at the January/February meeting, to 25bps per move.

That said, the rhetoric from Chair Powell at the post-meeting press conference and the overall tone of the Committee's forecasts will remain hawkish, with the FOMC committed to doing what is necessary to bring inflation back to target without delay.

With financial conditions having eased materially and nonfarm payrolls yet to show a sustained increase in labour market slack, **we now see the rate hike cycle extending to 4.875% at March.**

However, by that time, a much weaker labour market and stalled economy will call for an end to hikes, with cuts to come in 2024.

US labour market strong, for now



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For the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
Mon 12					
NZ	Oct net migration	2176	–	–	Pickup in migrant workers is outpacing NZer departures.
	Nov REINZ house sales %yr	–34.7%	–	–	Due this week. Recent further rises in mortgage rates…
	Nov REINZ house prices %yr	–10.9%	–	–	… will likely keep buyers away and prices down.
UK	Dec Rightmove house prices	–1.1%	–	–	More declines to come as policy tightening ensues.
	Oct trade balance £bn	–3135	–3300	–	Imports declining amid numerous headwinds facing HH's.
Tue 13					
Aus	Dec WBC–MI Consumer Sentiment	78	–	–	Descended to new extreme cycle lows in Nov.
	Nov NAB business survey	22	–	–	Conditions still elevated in October, but confidence evaporated.
NZ	Nov food price index	0.8%	–	–0.3%	Smaller seasonal drop than usual, annual growth high.
Eur	Dec ZEW survey of expectations	–38.7	–	–	Has bounced off historic lows but still very weak.
UK	Oct ILO unemployment rate	3.6%	3.7%	–	Slack to emerge more clearly into year-end.
US	Nov NFIB small business optimism	91.3	90.8	–	Consolidating but fragile given uncertainties.
	Nov CPI	0.4%	0.3%	0.3%	Close attention paid to composition of core CPI.
Wed 14					
Aus	RBA Governor Lowe	–	–	–	Keynote address at AusNetPay Summit, Sydney, 9:30am.
NZ	Q3 current account % of GDP	–7.8%	–	–8.0%	Hefty import bill due to rising world prices, transport costs.
	Half-Year Economic and Fiscal Update	–	–	–	High inflation making it costlier to maintain public services.
Jpn	Oct machinery orders	–4.6%	2.3%	–	Volatile but points to downside risk in capex spending.
	Q4 Tankan large manufacturers index	8	7	–	Distinct by industry, but demand is broadly softening.
	Oct industrial production	–2.6%	–	–	Final estimate.
Eur	Oct industrial production	0.9%	–1.3%	–	Support from easing supply issues but outlook is gloomy.
UK	Nov CPI	11.1%	10.9%	–	Annual core inflation looks to be flattening.
US	Nov import price index	–0.2%	–0.5%	–	Import prices continuing to decline from elevated levels.
	FOMC policy decision, midpoint	3.875%	4.375%	4.375%	FOMC to throttle back rate hike pace, but remain hawkish.
Thu 15					
Aus	Dec MI inflation expectations	6.0%	–	–	Falling petrol prices should help ease inflation expectations.
	Nov Labour Force employment, '000	32.2	17.0	27.0	Leading indicators moderated but remain at robust levels…
	Nov Labour Force unemployment	3.4%	3.4%	3.3%	… hinting of strong employment & falling unemployment.
NZ	Q3 GDP	1.7%	–	0.9%	Return of overseas tourists has provided fresh momentum.
Chn	Nov retail sales ytd %yr	0.6%	0.5%	–	Consumption is key to growth in 2023.
	Nov fixed asset investment ytd %yr	5.8%	5.6%	–	Policy is providing lasting support for investment…
	Nov industrial production ytd %yr	4.0%	4.0%	–	… but the global outlook remains a clear headwind.
Eur	ECB policy decision, refi rate	2.00%	2.50%	2.50%	Moderation from +75bp to +50bp widely expected.
UK	BoE policy decision	3.00%	3.50%	3.50%	BoE tightening cycle will likely run further into 2023.
US	Nov retail sales	1.3%	0.0%	–	Inflation and rates to weigh more heavily on consumption.
	Dec Fed Empire state index	4.5	–1.0	–	Regional surveys have…
	Dec Phily Fed index	–19.4	–10.0	–	… shown weakness of late.
	Initial jobless claims	230k	–	–	To remain at relatively low levels for now.
	Nov industrial production	–0.1%	0.2%	–	Weakness in domestic and global demand a key risk.
	Oct business inventories	0.4%	0.4%	–	Pace of inventory accrual beginning to slow.
Fri 16					
NZ	Nov manufacturing PMI	49.3	–	–	Manuf conditions, including orders, have been cooling.
Jpn	Dec Nikkei manufacturing PMI	49.0	–	–	Easing of restrictions have been a key support…
	Dec Nikkei services PMI	50.3	–	–	… but the outlook ahead remains challenging.
Eur	Dec S&P Global manufacturing PMI	47.1	–	–	Broad-based weakening in demand beginning to take hold…
	Dec S&P Global services PMI	48.5	–	–	… leaving mfg and services in a very fragile state.
	Oct trade balance €bn	–37.7	–	–	Deficit to remain very wide for the foreseeable future.
	Nov CPI	10.0%	–	–	Final estimate.
UK	Dec GfK consumer sentiment	–44	–42	–	Consumer confidence remains historically weak…
	Nov retail sales	0.6%	0.4%	–	… leading many households to limit their spending.
	Dec S&P Global manufacturing PMI	46.5	–	–	Elevated costs and softening demand…
	Dec S&P Global services PMI	48.8	–	–	… are weighing heavily on both mfg and services.
US	Dec S&P Global manufacturing PMI	47.7	47.9	–	Similar themes are present in the US though the ISMs…
	Dec S&P Global services PMI	46.2	46.5	–	… suggest larger firms are managing headwinds better.

Forecasts

Interest rate forecasts

Australia	Latest (9 Dec)	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
Cash	3.10	3.60	3.85	3.85	3.85	3.60	3.35
90 Day BBSW	3.13	3.97	4.05	4.05	3.97	3.72	3.47
3 Year Swap	3.55	4.00	3.85	3.70	3.60	3.55	3.50
3 Year Bond	3.02	3.70	3.60	3.50	3.40	3.35	3.30
10 Year Bond	3.29	3.20	3.10	3.00	2.90	2.80	2.70
10 Year Spread to US (bps)	-17	-20	-20	-20	-20	-10	0
US							
Fed Funds	3.875	4.875	4.875	4.875	4.875	4.375	3.875
US 10 Year Bond	3.46	3.40	3.30	3.20	3.10	2.90	2.70
New Zealand							
Cash	4.25	5.00	5.50	5.50	5.50	5.25	4.75
90 day bill	4.49	5.50	5.60	5.60	5.50	5.05	4.55
2 year swap	5.14	5.00	4.90	4.70	4.50	4.20	3.90
10 Year Bond	4.07	4.00	3.95	3.90	3.80	3.70	3.60
10 Year spread to US	61	60	65	70	70	80	90

Exchange rate forecasts

Australia	Latest (9 Dec)	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
AUD/USD	0.6787	0.69	0.70	0.72	0.74	0.75	0.76
NZD/USD	0.6401	0.64	0.65	0.66	0.67	0.68	0.68
USD/JPY	135.93	138	136	134	132	130	128
EUR/USD	1.0579	1.05	1.07	1.09	1.11	1.12	1.13
GBP/USD	1.2272	1.21	1.22	1.23	1.24	1.25	1.26
USD/CNY	6.9620	7.00	6.80	6.60	6.50	6.40	6.30
AUD/NZD	1.0603	1.08	1.08	1.09	1.10	1.11	1.13

Australian economic growth forecasts

	2021	2022				2023		Calendar years			
% change	**Q4**	**Q1**	**Q2**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**2020**	**2021**	**2022f**	**2023f**
GDP % qtr	3.8	0.4	0.9	0.6	0.6	0.6	0.2	–	–	–	–
%yr end	4.6	2.9	3.2	5.9	2.6	2.7	2.0	–0.1	4.6	2.6	1.0
Unemployment rate %	4.7	4.0	3.8	3.5	3.3	3.3	3.9	6.8	4.7	3.3	4.6
Wages (WPI)	0.7	0.7	0.8	1.0	1.1	1.1	1.1	–	–	–	–
annual chg	2.3	2.4	2.6	3.1	3.6	4.1	4.4	1.4	2.3	3.6	4.5
CPI Headline	1.3	2.1	1.8	1.8	2.0	1.3	0.8	–	–	–	–
annual chg	3.5	5.1	6.1	7.3	8.0	7.1	6.1	0.9	3.5	8.0	4.1
Trimmed mean	1.1	1.5	1.6	1.8	1.8	1.1	1.0	–	–	–	–
annual chg	2.6	3.8	4.9	6.1	6.8	6.5	5.9	1.2	2.6	6.8	3.8

New Zealand economic growth forecasts

	2021	2022				2023		Calendar years			
% change	**Q4**	**Q1**	**Q2**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**2020**	**2021**	**2022f**	**2023f**
GDP % qtr	3.0	–0.2	1.7	0.9	0.5	0.4	0.1	–	–	–	–
Annual avg change	5.5	4.9	1.0	2.5	2.5	3.1	3.5	–2.1	5.5	2.5	1.7
Unemployment rate %	3.2	3.2	3.3	3.3	3.3	3.4	3.5	4.9	3.2	3.3	3.9
CPI % qtr	1.4	1.8	1.7	2.2	1.1	1.5	1.0	–	–	–	–
Annual change	5.9	6.9	7.3	7.2	6.9	6.6	5.9	1.4	5.9	6.9	4.3

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